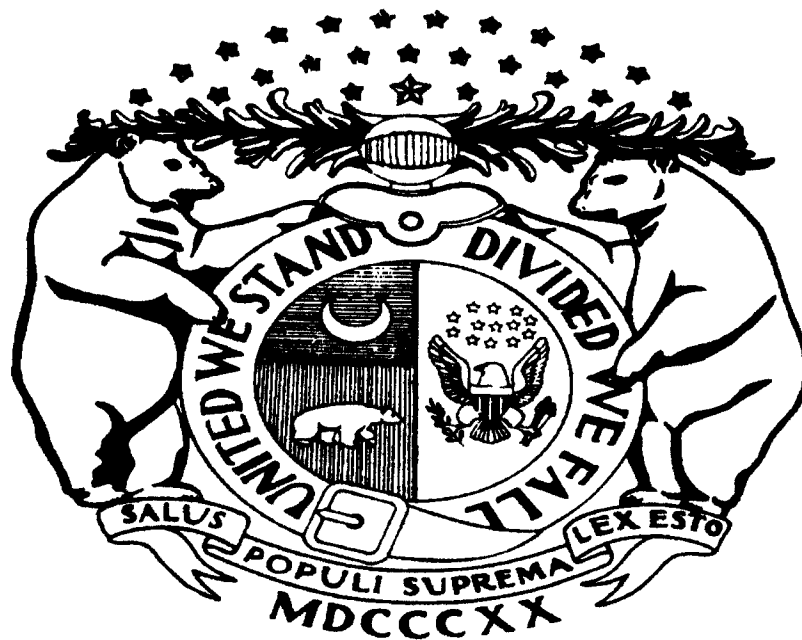


REPORT OF  
ASSOCIATION FINANCIAL EXAMINATION  
  
**COMMUNITY HEALTH PLAN INSURANCE COMPANY**

AS OF  
December 31, 2004



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI

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St. Joseph, Missouri  
June 1, 2005

Honorable Kevin M. McCarty, Commissioner  
Office of Insurance Regulation  
Florida Department of Insurance  
Chairman, (E) Financial Condition Committee

Honorable Jorge Gomez, Commissioner  
Wisconsin Department of Insurance  
Midwestern Zone Secretary

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

**Community Health Plan Insurance Company**

hereinafter referred to as such, as the “Company” or as “CHPIC.” Its administrative office is located at 137 North Belt, St. Joseph, Missouri 64506, telephone number (816) 271-1247. This examination began on February 28, 2005, and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior comprehensive financial examination of Community Health Plan Insurance Company was made as of December 31, 2000, and was conducted by

examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC). At the time of the prior examination, the Company was a shell owned by A.G. Edwards, Inc. and was known as A.G. Edwards Life Insurance Company. Effective March 17, 2003, the Company was sold by A.G. Edwards to Heartland Health (Heartland).

The current full scope association financial examination of the Company covers the period from the effective date of the purchase by Heartland, on March 17, 2003, through December 31, 2004, and has been conducted by examiners from the State of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination was conducted concurrently with the examination of Community Health Plan, an affiliate.

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

### **Procedures**

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the State of Missouri prevailed.

The Company's independent auditor is BKD, LLP of Kansas City, Missouri. The audited statutory financial statements for 2004 were not issued until the end of our examination fieldwork; therefore, examiners relied upon information supplied by BKD, LLP for its audit covering the period from January 1, 2003, through December 31, 2003.

Information relied upon included fraud questionnaires and narrative descriptions of processes and controls.

### **Comments-Previous Examination**

The comments and recommendations of the previous examination report dated as of December 31, 2000, were reviewed. The only prior comments and recommendations noted were the number of directors serving not being in compliance with the Articles of Incorporation and that non-directors were serving on committees in conflict with the provisions of the Bylaws. Due to the change in the Company's ownership occurring during the current examination period, the prior comments and recommendations were deemed to no longer be relevant.

## **HISTORY**

### **General**

The Company was incorporated January 1, 1981, under Chapter 376 RSMo (Life Accident and Health Insurance) under the name Contemporary American Life, Inc. In 1984, the Company was purchased by A.G. Edwards, Inc. and its name was changed to A.G. Edwards Life Insurance Company. The Company was held by A.G. Edwards, Inc. as a shell until March 17, 2003, at which time it was sold to Heartland Health, and its name was changed to its current form, Community Health Plan Insurance Company.

CHPIC is a wholly owned subsidiary of Heartland. Heartland is a not-for-profit organization, and is the parent of Heartland Regional Medical Center of St. Joseph, Missouri, and various other health care-related entities including a HMO, Community Health Plan.

**Capital Stock**

The Company had 10,000 shares of authorized and outstanding common stock as of December 31, 2004. The common stock has a par value of \$60 per share for a total par value of \$600,000. All common stock was owned in its entirety by Heartland Health.

**Dividends**

A cash distribution of \$682,123 was made by the Company to A.E. Edwards, Inc. just prior to the Company's sale to Heartland. This distribution represented capital which had accumulated in the Company in excess of statutorily required amounts. There have been no dividends or cash disbursements made or declared subsequent to the purchase of the Company by Heartland.

**Management**

All of the directors serving prior to the purchase of the Company by Heartland resigned and were replaced effective March 27, 2003, per a special meeting of the then sole shareholder, Heartland Health. The CHPIC elected directors serving as of December 31, 2004, were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
Charles William Salanski St. Joseph, Missouri	Retired
Alan Wayne Brewer, DO Faucet, Missouri	Practicing Physician Heartland Health
Lowell Charles Kruse St. Joseph, Missouri	President & CEO Heartland Health
William David Miller, MD St. Joseph, Missouri	Practicing Physician Family Medicine Associates

Scott Michael Folk, MD St. Joseph, Missouri	Practicing Physician Heartland Health
Ryne Patterson Lilly St. Joseph, Missouri	Executive Director St. Joseph Chamber of Commerce
Patrick Charles Dillon St. Joseph, Missouri	Owner The Dillon Company
Frank Anthony Leone St. Joseph, Missouri	General Manager City Car Chrysler
Jean Brown St. Joseph, Missouri	Executive Director YWCA of St. Joseph
Mary Cotter St. Joseph, Missouri	Realtor Coldwell Banker

The directors appointed by Heartland for CHPIC are the same as those appointed for its affiliate, CHP. It was noted that Heartland did not specifically reappoint those directors whose terms expired in 2003 and 2004 as required by Article V, Section A, of CHPIC's Articles of Incorporation. Although Heartland did reappoint directors for CHP, the Company is reminded that it and CHP are separate legal entities; therefore, appointment of its directors should be specifically and clearly documented in the minutes of its annual shareholder meeting.

The Company's Bylaws specify that the Company shall have the following committees: Executive, Finance, Provider Relations/Credentialing, and Marketing. The Company's Bylaws also specify the officers of the Company shall be a President (Chief Executive Officer), a Chief Operating Officer, a Secretary, a Chief Financial Officer (Treasurer), and such other officers and assistant officers as may be deemed necessary. The officers elected and serving, as December 31, 2004, as reported by the Company in its 2004 Annual Statement were as follows:

<u>Name</u>	<u>Title</u>
Lowell Charles Kruse	President & Chief Executive Officer
Curt Kretzinger	Chief Operating Officer
Rudy Wacker	Chief Administrative Officer
John Paul Wilson	Secretary/Treasurer & Chief Financial Officer
Edna Marie Everly	Assistant Secretary
Douglas Martin Brandt	Assistant Treasurer

There was no documentation of appointment of any of the required committees or officers specifically for CHPIC. Although the Company indicated that it was intended for the corresponding committee and officers appointed for CHP to also serve for CHPIC, it was not documented in the board of director's meeting minutes that committee members or officers were appointed for the benefit of both CHPIC and CHP. In addition, there are no provisions in the CHPIC Articles of Incorporation or Bylaws allowing for the Company to rely upon the CHP committees or officers. The Company is again reminded that it is a separate legal entity from CHP, and that if it intends to utilize the committees and/or officers of CHP, it should either change its Articles of Incorporation and/or Bylaws appropriately or ensure that the appointment of committee members and officers specifically for CHPIC are clearly documented in the Company's board of directors' meeting minutes.

### **Conflict of Interest**

The Company has procedures, which require that all officers and directors complete a conflict of interest statement annually. Signed conflict of interest statements were reviewed for the examination period, and no significant conflicts were disclosed.

### **Corporate Records**

A review was made of the Articles of Incorporation and Bylaws of the Company. Both the Articles of Incorporation and Bylaws were restated effective March 27, 2003, to reflect the sale of the Company to Heartland.

The minutes of the board of directors' meetings for both CHPIC and CHP were reviewed. It was noted that there were only four sets of minutes which were specific to CHPIC, although some issues relating specifically to CHPIC were documented in the minutes for CHP. In addition, there were no annual shareholder minutes specifically for CHPIC. The Company should ensure that it either maintains separate meeting minutes or if only one board meeting is held on behalf of both CHPIC and CHP, it is clearly stated that the board meeting minutes apply to both companies.

### **Acquisitions, Mergers and Major Corporate Events**

The Company was purchased by Heartland Health pursuant to an Agreement for Sale of Stock effective March 17, 2003. Under the agreement, Heartland agreed to pay \$1,245,000 for the stock of the Company. The sale of the Company was approved by the MDI subject to Heartland immediately contributing \$1,500,000 in capital to the Company upon purchase and starting with the first month business was written, infusing an additional \$50,000 per month for ten months, for a total investment of \$2,000,000.

Heartland Health included in the amount it reported as contributed capital to the Company the \$45,000 it paid above the book value of the Company at the time of purchase. This \$45,000 was then reported as a non-admitted asset (certificate of authority) by CHPIC and is currently being amortized over a five-year life. Under proper GAAP and Statutory accounting, the book value of the Company purchased (CHPIC)

would not be affected by the purchase amount, and any amounts paid above the purchased company's book value would only be reflected on the books of the purchasing company. Therefore, CHPIC should remove the \$45,000 from its books. Furthermore, Heartland should contribute an additional \$45,000 to CHPIC to comply with the original intent of the MDI approval.

### **Surplus Debentures**

There were no surplus debentures issued or outstanding for the period under examination.

## **AFFILIATED COMPANIES**

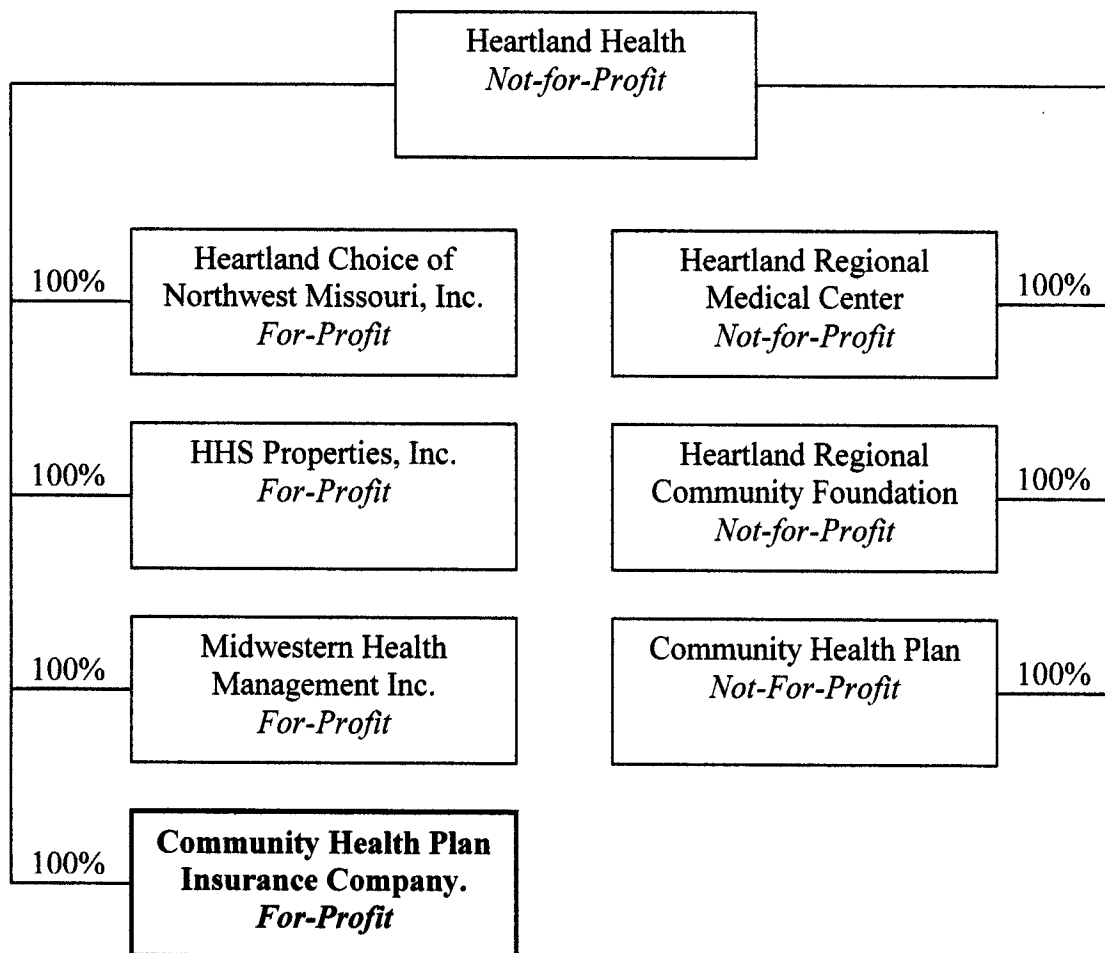
### **Holding Company, Subsidiaries and Affiliates**

Community Health Plan Insurance Company is a wholly owned subsidiary of Heartland Health. CHPIC is a member of an insurance holding company system as defined by Section 382.010 RSMo (Definitions). Insurance Holding Company Registration Statements were filed by Heartland on behalf of CHPIC and Community Health Plan for the periods under examination.

Heartland is a Missouri not-for-profit and community-based health care organization comprised of eight companies all of which operate in, or are related to, the health care industry.

### **Organizational Chart**

The following organizational chart depicts the holding company system including CHPIC as of December 31, 2004:



### Intercompany Transactions

The Company was a party to various intercompany agreements as of December 31, 2004. These agreements are summarized as follows:

1. Type: Administrative Service and Network Access Agreement

Parties: CHPIC and CHP

Effective: July 1, 2003

Terms: CHP will provide administrative, management and support services to CHPIC. These services shall include: finance, accounting, information systems, marketing, purchasing and medical claims benefits. CHP shall also provide CHPIC with access to its network of contracted health care

providers. For the provision of these services, CHPIC shall pay CHP a monthly fee equal to 12% of premiums received by CHPIC.

2. Type: Guaranty Agreement

Parties: CHPIC and Heartland

Effective: February 23, 2004

Terms: Heartland unconditionally guarantees the full and prompt payment and performance of any amounts that CHPIC is obligated to pay on behalf of CHP in connection with the Continuation of Coverage Policy between CHPIC and CHP. The obligations under this agreement are absolute, unconditional and unlimited.

3. Type: Dual Option Product Agreement

Parties: CHPIC and CHP

Effective: January 1, 2004

Terms: CHPIC and CHP agree to offer a dual option health benefit program jointly to employer groups of 26 or more employees. CHP shall offer an HMO product and CHPIC shall offer a PPO product. The individual employees of each employer group shall elect which benefit program shall apply to them. Premiums shall be recorded by actuarially established rates on the books of each party, and medical expenses incurred under the dual option programs will be charged to the books of the respective company responsible for the benefit program chosen by the employee. On a least a quarterly basis, the net income or net loss of each group under the dual option program will be computed and split equally between CHP and CHPIC.

The amounts paid to and (received) from parent and affiliates during 2004 and 2003 were as follows:

	<u>2004</u>	<u>2003</u>
Administrative Services & Network Access Agreement		
Paid to CHP	\$(476,711)	\$(27,018)
Guaranty Agreement		
Received from Heartland	-0-	-0-
Dual Option Product Agreement		
Received from CHP	<u>1,011,935</u>	<u>-0-</u>
<b>Net amount paid or (received)</b>	<b><u>\$535,224</u></b>	<b><u>(\$27,018)</u></b>

CHPIC is also a party to a Continuation of Coverage Policy with CHP. Under this agreement, CHPIC agrees to provide continuation of care reinsurance coverage to CHP in the event CHP becomes insolvent. This agreement is discussed in greater detail in the Reinsurance section of this report.

In addition to the payments noted above, the Company also made intercompany payments in the amount of \$700,986 and \$78,663 in 2004 and 2003 respectively, to its parent, Heartland Health. These payments represent reimbursements to Heartland for accounts payable Heartland had paid on behalf of CHPIC consisting mostly of pharmacy claims invoiced by CHPIC's pharmacy benefit manager. These payments were made without the benefit of an intercompany agreement between CHPIC and Heartland. The Company is directed to obtain an intercompany agreement with Heartland governing the payment and reimbursement of the accounts payable. Furthermore, the agreement should be filed for approval with the MDI in accordance with Section 382.195, RSMo (Transactions Within a Holding Company System).

### **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a crime policy issued to Heartland Health. The policy provides coverage with a liability limit of \$1,000,000 and a \$10,000 deductible. The crime coverage for Heartland and its subsidiaries on a consolidated basis does not meet the amount suggested in guidelines promulgated by the NAIC, which is between \$1,250,000 and \$1,500,000 in coverage. The Company should ensure that if the crime coverage continues to be purchased on a consolidated basis, the amount is

increased to meet the suggested NAIC amounts, or the Company should obtain crime coverage sufficient to meet the NAIC guidelines as a separate entity.

The Company is also a named insured on the following insurance policies issued to Heartland: Directors and Officers Liability, Excess Commercial General Liability and Umbrella Excess Commercial General Liability.

### **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

CHPIC has no direct employees. Services are provided to the Company by employees of CHP in accordance with the provisions of an administrative services agreement that is explained in greater detail in the Intercompany Transactions Section of this report.

CHP provides a variety of benefits to its employees, which include, but are not limited to, medical and dental coverage, vision coverage, life and accidental death and dismemberment coverage, paid vacation and sick leave and a 401(k) Retirement Plan.

### **STATUTORY DEPOSITS**

#### **Deposits with the State of Missouri**

The funds on deposit with the Missouri Department of Insurance as of December 31, 2004, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 376.290 RSMo (Deposit and transfer of securities). The funds on deposit were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Fair Value</u>
U.S. Treasury Bill	\$610,000	\$606,926	\$606,358

**Deposits with Other States**

CHPIC does not have funds on deposit with any other state.

**INSURANCE PRODUCTS AND RELATED PRACTICES**

**Territory and Plan of Operations**

The Company is licensed in the state of Missouri under RSMo Chapter 376 (Life and Accident Insurance). As of December 31, 2004, the Company was not licensed in any other states. The Company's business is currently limited to group accident and health insurance. Although the Company has the authority to write life business, it has no plans to do so at this time.

The Company's service is concentrated in 21 counties located in northwestern Missouri. As of December 31, 2004, the Company provided benefits to 1,381 members.

The Company's sole product is a group Preferred Provider Organization (PPO) plan it offers in conjunction with the HMO products offered by its affiliate, Community Health Plan in accordance with the Dual Option Product Agreement discussed in greater detail in the Intercompany Transactions section of this report. The PPO product is marketed by in-house agents who are employees of CHP and by independent agents and brokers.

**Policy Forms & Underwriting**  
**Advertising & Sales Material**  
**Treatment of Policyholders**

The Missouri Department of Insurance has a market conduct staff which performs a review of these issues and generates a separate market conduct report. However, as the Company was a shell prior to its purchase by Heartland and just started writing business

in August 2003, it has never had a market conduct examination. A cursory review was made concerning the market conduct activities of the Company during the course of this examination and no material issues were noted.

## REINSURANCE

### General

The Company's reinsurance and premium activity during the period under examination are as follows:

<u>Premiums:</u>	<u>2004</u>	<u>2003</u>
Direct Business	\$3,936,118	\$285,322
Reinsurance Assumed:		
Affiliates	(20,000)	-0-
Non-affiliates	-0-	-0-
Reinsurance Ceded:		
Affiliates	-0-	-0-
Non-affiliates	(21,807)	(1,865)
Net Premiums Written	<u>\$3,894,311</u>	<u>\$283,457</u>

### Assumed

The Company has a Continuation of Coverage Policy with its affiliate CHP effective July 1, 2004 through July 1, 2005. Under the terms of the agreement, CHPIC is to provide continuation of care coverage to CHP members in the event of CHP's insolvency. An annual premium of \$10,000 is charged under the agreement. Under a separate Guaranty Agreement between CHPIC and Heartland, Heartland unconditionally guarantees the full and prompt payment and performance of any amounts CHPIC is obligated to pay on behalf of CHP in connection with the Continuation of Coverage Policy.

**Ceded**

The Company is contingently liable for all reinsurance losses ceded or retroceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

The Company and its affiliate, CHP, are both named reinsureds on a HMO Excess of Loss Risk Reinsurance Agreement effective July 1, 2004, through June 30, 2005 with Standard Security Life Insurance Company (Standard). Under the agreement, CHP cedes 90% of its eligible hospital service claims subject to a \$125,000 retention to Standard. Standard's maximum liability is limited to \$1,000,000 per member per agreement year with a maximum liability per covered member per lifetime of \$2,000,000.

**ACCOUNTS AND RECORDS****Independent Auditor**

The Company's financial statements for the year ending December 31, 2002, were audited by the CPA firm of KPMG LLP, Kansas City, Missouri. The Company's financial statements for the year ending December 31, 2003 were audited by the CPA firm of BKD, LLP, Kansas City, Missouri, and BKD was also retained to perform the year 2004 statutory audit. However, audited statutory financial statements for 2004 were not issued until the end of our examination fieldwork.

**Independent Actuary**

The Company's unpaid claim reserves were reviewed and certified by Richard Johnson, FSA, MAAA, of Pavidan Benefit Services, Inc. of Minneapolis, Minnesota, for 2003 and 2004.

**Annual Statement Blank**

Although the Company's sole line of business is group health coverage, the Company files the Life, Accident and Health Annual Statement and Quarterly Statement blanks. However, the Company meets the requirements of the NAIC Annual Statement Instructions for filing the Health blank. It appears that filing the Health blank would better facilitate the disclosure of health-oriented information regarding the Company's business. The Company should follow up with the MDI regarding which statement blanks it should file in future periods.

**Custodial Agreement**

During our review of the Company's cash and investment accounts, it was noted that the Company's custodial agreement with US Bank did not contain all of the safeguard provisions specified in Part 1, Section IV of the NAIC Financial Condition Examiners Handbook. The Company should amend or restate the custodial agreement so that it contains all of the NAIC specified safeguard provisions. Until such time as the agreement is brought into compliance with NAIC guidelines, it should be disclosed in General Interrogatory 23.02 of the Annual Statement relating to custodial agreements that do not comply with NAIC guidelines.

**FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2004. Any examination adjustments to the amount reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements." (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the “Notes to the Financial Statements.” These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore they were communicated to the Company and/or noted in the workpapers for each individual Annual Statement item.

**Assets**

	LEDGER ASSETS	ASSETS NOT ADMITTED	NET ADMITTED ASSETS
Cash and short-term investments	\$2,618,570		\$2,618,570
Investment income due and accrued	1,343		1,343
Net deferred tax asset	105,562	\$ 105,562	-
Receivable from parent, subs. and affiliates	58,765		58,765
Health care and other amounts receivable	15,000	7,500	7,500
Aggregate write-ins for other than invested assets:			
Purchased Certificate of Authority	30,750	30,750	-
<b>Total assets</b>	<b>\$2,829,990</b>	<b>\$143,812</b>	<b>\$2,686,178</b>

### **Liabilities, Surplus and Other Funds**

Aggregate reserve for accident and health contracts	\$ 28,000
Contract claims:	
Accident and health	917,957
Premiums for A&H contracts received in advance	76,198
Taxes, licenses and fees due or accrued	<u>12,746</u>
Total liabilities	1,034,901
 Common capital stock	 600,000
Gross paid in and contributed surplus	1,400,000
Unassigned funds (surplus)	<u>(348,723)</u>
Surplus	<u>1,651,277</u>
Total liabilities and surplus	<u><u>\$ 2,686,178</u></u>

## **Summary of Operations**

Premiums for accident and health contracts	\$ 3,914,311
Net investment income	26,048
Aggregate write-ins for miscellaneous income:	
Dual Option Product Settlement	<u>1,011,935</u>
<b>Total</b>	<b>4,952,294</b>
Benefits under A&H contracts	4,689,816
Increase in aggregate reserves for A&H contracts	24,400
General insurance expenses	489,130
Insurance taxes, licenses and fees	20,793
Aggregate write-ins for deductions:	
Amortization - Certificate of Authority	<u>9,000</u>
<b>Total</b>	<b><u>5,233,139</u></b>
<b>Net income</b>	<b><u><u>\$ (280,845)</u></u></b>

## **Capital and Surplus Account**

<b>Capital and surplus December 31, 2003</b>	<b>\$ 1,680,622</b>
Net income	(280,845)
Change in net deferred income tax	97,273
Change in nonadmitted assets	(95,773)
Paid in surplus adjustment	<u>250,000</u>
<b>Surplus as regards policyholders, December 31, 2004</b>	<b><u><u>\$ 1,651,277</u></u></b>

## **NOTES TO THE FINANCIAL STATEMENTS**

None.

## **EXAMINATION CHANGES**

None

## **GENERAL COMMENTS AND/OR RECOMMENDATIONS**

### **Management (page 4)**

Although Heartland reappointed directors whose terms expired in 2003 and 2004 for CHP, it was noted that Heartland did not specifically reappoint directors for CHPIC as required by Article V, Section A, of CHPIC's Articles of Incorporation. The Company is reminded that it and CHP are separate legal entities; therefore, it should ensure that appointment of its directors is specifically and clearly documented in the minutes of its annual shareholder meeting.

There was no documentation of appointment of committee members or officers specifically for CHPIC. Although the Company indicated that it was intended for committee members and officers of CHP to also serve for CHPIC, this arrangement is was not documented in the board of director's meeting minutes. In addition, the Articles of Incorporation and Bylaws for CHPIC do not contain any provisions allowing the Company to rely upon the CHP committees or officers. The Company is again reminded that it is a separate legal entity from CHP. If it intends to utilize the committees and officers of CHP, it should either change its Articles of Incorporation and/or Bylaws appropriately or the Company should ensure that the appointment of committee members

and officers specifically for CHPIC are clearly documented in the board of director meeting minutes.

**Corporate Records (page 7)**

The Company was only able to provide four sets of board of director meeting minutes which were specific to CHPIC although it was noted some issues relating to CHPIC were also discussed in the CHP board of director minutes. The Company was unable to provide any annual shareholder meeting minutes specific to CHPIC. The Company should ensure that it either maintains separate meeting minutes or if only one board meeting is held on behalf of both CHPIC and CHP, it is clearly stated that the board meeting minutes apply to both companies.

**Acquisitions, Mergers and Major Corporate Events (page 7)**

The sale of CHPIC to Heartland was approved by the MDI on condition that Heartland contribute \$1,500,000 in capital to CHPIC immediately upon purchase and an additional \$50,000 per month for ten months for a total investment of \$2,000,000. Heartland included in the amount it reported as contributed capital \$45,000 it paid above the book value of CHPIC at the time of purchase, and this amount is being reported as a non-admitted asset on the books of CHPIC. The recording of the \$45,000 by CHPIC on its books is not in accordance with GAAP or Statutory accounting, and therefore, the amount should be removed. Furthermore, the Company is directed to ensure that Heartland contributes an additional \$45,000 in cash to CHPIC to comply with the original intent of the MDI approval.

**Intercompany Transactions (page 9)**

The Company is directed to obtain an intercompany agreement with Heartland governing the payment and reimbursement of the accounts payable. Furthermore, the agreement should be filed for approval with the MDI in accordance with Section 382.195, RSMo (Transactions Within a Holding Company System).

**Fidelity Bond (page 11)**

The crime coverage for Heartland and its subsidiaries on a consolidated basis does not meet the amount suggested in guidelines promulgated by the NAIC. The Company should ensure that if the crime coverage continues to be purchased on a consolidated basis, the amount is increased to meet the suggested NAIC amounts, the Company should or obtain crime coverage sufficient to meet the NAIC guidelines as a separate entity.

**Annual Statement Blank (page 16)**

The Company meets the requirements of the NAIC Annual Statement Instructions for filing the Health blank. It appears that filing the Health blank would better facilitate the disclosure of health-oriented information regarding the Company's business. Therefore, it is recommended that the Company consider using the Health blank for future filing periods.

**Custodial Agreement (page 16)**

The Company's custodial agreement with US Bank did not contain all of the safeguard provisions specified in Part 1, Section IV of the NAIC Financial Condition Examiners Handbook. The Company should amend or restate the custodial agreement so that it contains all of the NAIC specified safeguard provisions. Until such time as the agreement is brought into compliance with NAIC guidelines, it should be disclosed in

General Interrogatory 23.02 of the Annual Statement relating to custodial agreements which do not comply with NAIC guidelines.


**ACKNOWLEDGMENT**

The assistance and cooperation extended by the officers and the employees of Community Health Plan Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Barbara Bartlett, AFE, and Andy Balas, CFE, examiners for the Missouri Department of Insurance, participated in this examination.

**VERIFICATION**

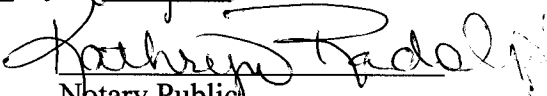
State of Missouri           )  
   )  
 County of                    )

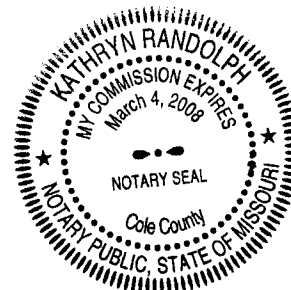
I, Mark Nance, CPA, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

  
 \_\_\_\_\_  
 Mark Nance, CPA, CFE  
 Examiner-In-Charge  
 Missouri Department of Insurance

Sworn to and subscribed before me this 10<sup>th</sup> day of August, 2005.

My commission expires: \_\_\_\_\_

  
 \_\_\_\_\_  
 Notary Public



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CHPIC – 12/31/04

### SUPERVISION

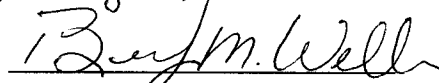
The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Frederick G. Heese, CFE, CPA  
Audit Manager  
Missouri Department of Insurance

Sworn to and subscribed before me this 10<sup>th</sup> day of August, 2005.

My commission expires: 03-17-2008

  
Notary Public

BEVERLY M. WEBB  
Notary Public - Notary Seal  
STATE OF MISSOURI  
Clay County  
My Commission Expires March 17, 2008



September 1, 2005

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Mr. Kirk Schmidt, CFE, CPA  
Chief Financial Examiner  
Missouri Department of Insurance  
Harry S. Truman State Office Building, Room 530  
301 West High Street  
Jefferson City, MO 65101

Re: Examination Report of Community Health Plan Insurance Company for the period ending 12/31/2004.

Dear Mr. Schmidt:

Please receive this letter as our response to the examiner's findings in the above referenced report. Note that the comments are repeated (paraphrased) and the Community Health Plan Insurance Company (CHPIC) responses are in bold letters.

1. Management. It was noted that Heartland did not specifically reappoint directors for CHPIC. There was no documentation of appointment of committee members or officers specifically for CHPIC. Although the Company indicated that it was intended for the committee members and officers of CHP to also serve for CHPIC, this arrangement was not documented in the board minutes. In addition the Articles of Incorporation and Bylaws for CHPIC do not contain any provisions allowing the Company to rely upon CHP committees or officers. The Company is reminded that it is a separate legal entity from CHP. If it intends to utilize the committees and officers of CHP it should either change its Articles of Incorporation and/or Bylaws appropriately or the Company should ensure that the appointment of committee members and officers specifically for CHPIC are clearly documented in the board of director meeting minutes.

**The Company affirms the intention of having officers and committee members of CHP serve in concurrent duplicative capacity for CHPIC. The Company will see that directors and committee members are specifically appointed at the annual meeting in November. Also staff will review the matter with legal counsel to determine the most efficacious manner of documenting this intention.**

2. Corporate Records. The Company was only able to provide four sets of board minutes specific to CHPIC although it was noted some issues relating to CHPIC were also discussed in the CHP board of director minutes. The Company was unable to provide any annual shareholder meeting minutes specific to CHPIC.

**The Company has always intended to properly record the actions of its board and committees and to properly document annual meetings. Both CHP and CHPIC will take steps to ensure that an annual meeting of the shareholders is properly documented. Also future board minutes will be recorded to properly reflect the activities of the synonymous boards and committees.**

3. Acquisitions, Mergers and Major Corporate Events. The recording of the \$45,000 (Intangible Asset) on the books is not in accordance with GAAP or Statutory accounting and therefore, the amount should be removed. MDI's approval was contingent on Heartland's contribution of \$1,500,000 and \$50,000 per month until a total of \$2,000,000 was contributed. The Company is directed to ensure that Heartland contributes and additional \$45,000 in cash to CHPIC to comply with the original intent of the MDI approval.

**The Company will remove the intangible asset from its books and request an additional \$45,000 in cash from Heartland. However CHPIC and Heartland believe that both parties acted in good faith and fulfilled the original intent of the MDI approval. It is also noted that the current net worth of CHPIC is in excess of \$2,237,000. Therefore Heartland and CHPIC do not agree an additional \$45,000 should be required at this time and respectfully ask the Department to wave this directive.**

4. Intercompany transactions. The Company is directed to obtain an intercompany agreement with Heartland governing the payment and reimbursement of the accounts payable.

**CHPIC and Heartland will draft an agreement addressing the payment and reimbursement of accounts payable and file it for approval with MDI in accordance with Section 382.195, RSMo.**

5. Fidelity Bond. The crime coverage for Heartland and its subsidiaries on a consolidated basis does not meet the amount suggested in guidelines promulgated by the NAIC.

**The Company and Heartland will review the Fidelity Bond coverage for adequacy prior to the 2006 renewal.**

6. Annual Statement Blank. It is recommended that the company consider using the Health blank for future filing periods.

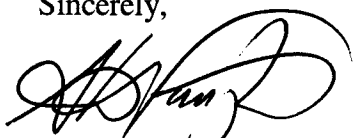
**CHPIC will begin using the Health Blank In 2006.**

7. Custodial Agreement. The Company's Custodial agreements with US Bank does not contain all of the safeguard provisions specified in Part 1, Section IV of the NAIC Financial Condition Examiners Handbook.

**CHPIC has contacted US Bank and requested an amendment to bring the agreement into compliance with NAIC guidelines.**

Community Health Plan Insurance Company requests the above responses be included in the final report as part of the public documents.

Sincerely,

A handwritten signature in black ink, appearing to read 'Stan Vaughan', with a large, stylized flourish at the end.

Stan Vaughan  
Finance Director

CC: Lowell C. Kruse, President and CEO  
Linda S. Bahrke, Plan Administrator  
Mike Cundiff, Compliance Coordinator  
Dennis Carter, Finance Manager